



— State of —
North Dakota
Office of the Governor
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September 4, 2003

Testimony of the Honorable John Hoeven
Governor of the State of North Dakota

Presented by the Honorable Jack Dalrymple
Lt. Governor of the State of North Dakota

United States International Trade Commission
Durum and Hard Red Spring Wheat from Canada
Investigation Nos. 701-TA-430(A) and 430(B) (Final)
Investigation Nos. 731-TA-1019(A) and 1019(B) (Final)

Madam Chair and members of the Commission, thank you for holding this important hearing this morning. These countervailing duty and dumping investigations are receiving broad interest and support across not only our state but the entire Northern Great Plains region. It is our hope that after you have reviewed the information in these proceedings that you will come to know what governors in the region have known for so many years - that U.S. hard red spring and durum wheat farmers have suffered injury at the hands of the Canadian Wheat Board. And, they will continue to face the threat of additional injury until the subsidies the Government of Canada provides to the Canadian Wheat Board and the unfair pricing practiced by the Board are permanently addressed.

I will keep my remarks brief, as I know you have many witnesses to hear from and questions to ask, but please feel free to call upon me later for further information or insight into the injury our farmers have suffered.

Agriculture is the leading revenue-producing industry in North Dakota, and wheat is by far the state's chief agricultural commodity. North Dakota ranks first in the United States in the production of hard red spring wheat and durum - the products under review by the Commission. We are proud to point out that our farmers grow approximately 44 percent of the Nation's hard red spring wheat and 70 percent of its Durum, and we must emphasize to the Commission that the wheat we produce is of the highest quality.

North Dakota wheat farmers' problems with the CWB date back to the negotiations for the Canada-United States Free Trade Agreement, and later, NAFTA. Both of these agreements failed to adequately address the practices of a state-supported monopoly export board such as the Canadian Wheat Board and its impact on U.S. producers. Wheat farmers in North Dakota have been particularly vulnerable to these practices, not only because they live along the border with

Canada, but also because they produce the same hard red spring wheat and durum. The omission of a remedy from these trade agreements was documented at the time by the *Wall Street Journal* in an article that stated the agreement was positive for almost all U.S. industries, with the noted exception of a group of wheat growers in North Dakota. That was nearly fourteen years ago. North Dakota wheat growers have suffered a great deal of injury in that long period of time.

The unfair and market-distorting practices of the CWB, which have continued unabated for all of these years, have caused massive harm to the U.S. wheat industry. We applaud the efforts of the U.S. Trade Representative, the Department of Commerce, and the Commission for the recent and multiple undertakings which are attempting to resolve this matter. Canada is a good neighbor, an important ally to the United States, and a major trading partner - it is truly a shame that they have always refused to come to the negotiating table to resolve this longstanding dispute.

We support the effort for agricultural reform in the current round of WTO negotiations, but we're not certain what will happen at the upcoming WTO Ministerial Conference in Mexico next week. Also, there is one major problem with the WTO- true reform is at best several years away and many of North Dakota's farmers need action sooner rather than later. The Commission's investigations may be the last, best hope for a generation of North Dakota wheat farmers. If there is to be true free trade in North America, then it must also be fair trade. The final determination in these investigations should support this basic and fundamental aspect of our existing trade agreements. Partners in trade that refuse to disclose the prices and terms under which they sell their product can never be considered "fair traders" and must be countered in some way.

The government subsidies and dumping now confirmed by the Department of Commerce have caused and threaten to continue causing injury to U.S. hard red spring and durum wheat farmers. People and assets remain tied to wheat farming in North Dakota for a variety of reasons: agronomic, economic and sociological. These barriers to exit, as well as barriers to re-entry, have set the stage for a slow and painful decline of wheat farming in our state unless the predatory practices of the CWB are stopped.

In growing an agricultural commodity such as wheat, capital investments in land and equipment, as well as variable costs of fertilizer, fuel, and herbicides add up to a significant cost of production which cannot realistically be trimmed. Furthermore, many wheat farmers in North Dakota have limited options for growing other crops due to the short growing season and limited rainfall potential. Our local economies are broadly agricultural-based; consequently, the injury inflicted by the Canadian Wheat Board's unfair pricing below market value reverberates throughout our entire state. The decline of wheat farms hurts other local businesses and leads to a loss of service sector jobs even in our larger cities. Figures confirm that net farm income in recent years has been negative; this is why we have seen more and more wheat farmers leaving agriculture. Farmers have come to me many times in last few years and asked me why U.S. wheat prices remain low, even while supplies are decreasing and demand for wheat has actually risen. The answer lies in the quiet, systematic dumping of wheat into our domestic markets by the Canadians.

With low prices and negative net incomes facing the state's growers of wheat, one might think that the idea of exiting farming altogether would become more attractive. Yet abandoning the farm is an impossible step for many North Dakota growers, especially those who have lifetimes of family labor invested in the farm and a long-term bank debt to pay-off. The determination by the Department of Commerce is of course, only part of the solution.

In short, wheat farmers faced with low prices due to the Canadian Wheat Board's unfair pricing and Canadian Government subsidies have little recourse. Consequently, hard red spring and durum farmers in our state have experienced a steep decline in farm income during recent years, and will continue to face bleak prospects until Canada agrees to, or is forced to, reign in the trade distorting practices of the Board. We will also continue to see deep frustration that our federal government has not addressed the unfair trading practices of the Canadian Wheat Board.

You may ask how the actual injury is occurring to our wheat farmers. Ultimately, much of the real damage comes from the creation of a separate marketplace, apart from the Minneapolis, or the global market. In this scenario, the Canadian Wheat Board sells wheat in long-term contracts without any hedge or offsetting purchases normally used by the free market grain trade. This practice in essence does not "input" the free market with this major, market moving information. Later, when prices should rise due to short supplies, the market is held down by the Board's marketing mistake as cheap stocks flow into the U.S.A.

The key point here is that this tremendous loss of potential value is caused not by Canadian farmers nor by grain companies, but rather by the government of Canada, which obscures their share of the loss within their system over time.

For the same reason, the CWB is the only seller able to make multi-year contracts with U.S. buyers. They do not need to cover their risk with offsetting purchases as other grain suppliers do. If they are caught short, they simply deliver at lower prices and conceal the loss of value, knowing that they are ultimately backed by the government of Canada.

The resulting level of injury from these marketing practices varies tremendously from year to year, but over time we know that the damages are significant.

As for the threat of future injury to our wheat farmers, let me detail one issue for your consideration. Agriculture and Agri-Food Canada has recently increased its estimate for Canadian non-durum wheat stocks for the just completed 2002-2003 crop year. Canada projected a total supply of Canadian non-durum wheat at 17.2 million tonnes, with domestic use forecast to be 7.2 million tonnes, leaving about 10 million tonnes available for export. In a crop season with record low production, industry observers have noted that ending Canadian stocks should have been reduced to the barest possible minimum. Instead, the Canadian Wheat Board, in order to avoid a pool deficit, only accepted contracts for the top two grades of non-durum wheat. The result is that farmers in Western Canada will be left with almost near-normal ending stocks after a year of the lowest production in modern times. All of this excess wheat is waiting to be dumped in the U.S. market if the Commission should fail to issue a final determination of injury.

Meanwhile it is disappointing that U.S. millers continue their self-serving attempts to disparage the quality and quantity of U.S. hard red spring wheat and durum. In fact, our wheat is

of the highest quality, and data confirms that supplies and stocks are more than sufficient to support domestic needs. Furthermore, U.S. Customs data confirms that the wheat U.S. millers are importing from Canada is typically of no better quality than U.S. wheat. It is troubling that our millers stand so ready to sacrifice the livelihood of our own U.S. wheat farmers in order to continue to accept unfairly dumped wheat from the Canadian Wheat Board. It also is troubling that millers can officially state that they support reform of state trading enterprises in WTO negotiations, yet appear before you today in support of the world's largest state trading enterprise. We sincerely hope that they realize the untenable position they are presenting to the world trading community.

If this trade problem is not addressed, the injury to the domestic hard red spring and durum wheat industries could ultimately force the millers to become dependent on Canadian imports. And, if they think the CWB will not take advantage of that they are surely mistaken. U.S. millers should look at certain export markets in which the Board has come in and under-priced U.S. wheat to such an extent that U.S. market share was rubbed out. Not surprisingly, once U.S. competition was gone, prices rose considerably.

The North Dakota Governor's Office agrees wholeheartedly with the Members of Congress who have testified today and believes that the Commission has a unique opportunity to bring this longstanding trade dispute to a resolution. North Dakota wheat farmers harbor no illusion that the CWB or the Canadian Government will alter any of their prior positions on the status and activities of the Board unless forced to do so by its trading partners. A strong finding of injury to U.S. hard red spring wheat and durum farmers by the Commission in these investigations will go a long way in creating equity in our wheat markets.

The injury to North Dakota's farmers has been, and will continue to be, significant if action is not taken. Our farmers are not asking for any advantage in wheat markets; they simply want a fair opportunity to compete. You have it within your authority to finally correct an injustice that has been neglected for nearly twenty years.

Thank you for the opportunity to appear before you this morning.